

## Message Text

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43

ACTION EUR-25

INFO OCT-01 ADP-00 AID-20 EB-11 NSC-10 RSC-01 CIEP-02

TRSE-00 SS-15 STR-08 OMB-01 CEA-02 CIAE-00 COME-00

FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01

L-03 H-02 DODE-00 PA-03 USIA-12 PRS-01 TAR-02 AGR-20

RSR-01 EURE-00 /178 W  
----- 027600

P R 101734 Z MAY 73  
FM AMEMBASSY BONN  
TO SECSTATE WASHDC PRIORITY 4970  
INFO USMISSION OECD PARIS  
EC BRUSSELS 130

UNCLAS BONN 6746

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E. O. 11652: N/ A  
TAGS: EFIN, ECON, GW

SUBJECT: GOVERNMENT OFFICIALLY ANNOUNCES ADDITIONAL STABILIZATION  
MEASURES

REF: BONN A-137

1. SUMMARY. DURING A SPECIAL SESSION LATE LAST NIGHT, THE  
CABINET AGREED ON A PACKAGE OF ADDITIONAL STABILIZATION MEASURES  
TO SUPPLEMENT THE PROGRAM CONTAINED IN THE GOVERNMENT'S ANNUAL  
ECONOMIC REPORT AND SUMMARIZED IN REFAIR. THE PROPOSED ADDITIONAL  
MEASURES WHICH WERE OFFICIALLY ANNOUNCED IN A PRESS CONFERENCE  
THIS MORNING ARE PRIMARILY DESIGNED TO REDUCE SHARPLY PUBLIC AND  
PRIVATE DEMAND THROUGH TEMPORARY TAX INCREASES, CURTAILMENT OF  
PUBLIC SPENDING PLANS, REDUCTION OF PLANNED BORROWING AT ALL LEVELS  
OF GOVERNMENT, AND STERILIZATION OF EXCESS TAX RECEIPTS. " FLANKING  
MEASURES" INCLUDE A PLEA FOR CONTINUED TIGHT MONETARY POLICIES,  
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ANNOUNCEMENT OF ADDITIONAL FACILITATION OF IMPORTS, AND PROMISES FOR EARLY REVISION OF ANTI- CARTEL RULES TO STIMULATE COMPETITION. END SUMMARY.

2. TAX MEASURES TO BECOME EFFECTIVE MAY 9: AN 11 PERCENT INVESTMENT TAX IS TO BE LEVIED ON NEW INVESTMENT IN PLANT AND EQUIPMENT FOR A MAXIMUM OF TWO YEARS. IN EXCEPTIONAL CASES, THIS TAX MAY BE REDUCED TO 5.5 PERCENT. THE REVENUES FROM THE INVESTMENT TAX ARE TO BE FROZEN AT THE BUNDESBANK. THE USUAL ACCELERATED DEPRECIATION ALLOWANCES WILL NOT APPLY TO EQUIPMENT AND PERSONALLY-OWNED APARTMENTS AND 1- AND 2- FAMILY HOMES ORDERED AFTER MAY 9, 1973 AND BEFORE MAY 1, 1974.

3. INCOME TAX SURCHARGE PROPOSED TO TAKE EFFECT AS OF JULY 1: THIS SURCHARGE WOULD AMOUNT TO 10 PERCENT OF PRIVATE AND CORPORATE INCOME TAXES DUE. AFFECTED WOULD BE TAXPAYERS WITH A TAXABLE ANNUAL INCOME EXCEEDING DM 24,000 ( SINGLE) OR DM 48,000 ( MARRIED), RESPECTIVELY. IT WOULD APPLY THROUGH JUNE 30, 1974, AND WOULD NOT BE REIMBURSED. THE REVENUES, OFFICIALLY ESTIMATED AT DM 4.6 BILLION, ARE TO BE STERILIZED.

4. INCOME TAX PREPAYMENTS: THESE ARE TO BE STEPPED UP BY MORE TIMELY ADJUSTMENTS TO RISING INCOMES.

5. REDUCTION OF PUBLIC SPENDING PLANS: FEDERAL EXPENDITURES NOT LEGALLY FIXED ARE TO BE KEPT 5 PERCENT BELOW PREVIOUSLY PROPOSED LEVELS THIS YEAR, WHICH WOULD MEAN SAVINGS OF SOME DM 700 MILLION. THE STATES HAVE OFFICIALLY BEEN REQUESTED TO FOLLOW SUIT. MOREOVER, THE GOVERNMENT SEEKS THE STATES' AGREEMENT TO CURB BY 10 PERCENT BUDGETED EXPENDITURES FOR JOINT FEDERAL/ STATE VENTURES ( UNIVERSITIES, INFRASTRUCTURE, ETC.) -- ESTIMATED SAVINGS: DM 330 MILLION ( FEDERAL) AND DM 660 MILLION ( STATES), RESPECTIVELY. IN ADDITION, 10 PERCENT OF THE PROPOSED 1973 EXPENDITURES OF THE ERP FUND( EUROPEAN RECOVERY PROGRAM) ARE TO BE BLOCKED.

6. CURTAILMENT OF PUBLIC BORROWING: THE FINANCE MINISTER HAS BEEN COMMISSIONED TO SEEK THE CONSENT OF THE STATES FOR A DECREE IN ACCORDANCE WITH THE STABILITY AND GROWTH LAW TO REDUCE CURRENTLY CONTEMPLATED NET BORROWING OF THE PUBLIC SECTOR BY A TOTAL OF DM 5.5 BILLION. ( FEDERAL, 1.7; STATES, 2.8; MUNICIPALITIES, 1.0).

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7. STERILIZATION OF EXCESS TAX RECEIPTS: THE GOVERNMENT COMMITTED ITSELF TO NEUTRALIZE EXCESS TAX RECEIPTS IN A SPECIAL BUNDESBANK ACCOUNT; THE STATES HAVE BEEN URGED TO FOLLOW SUIT IN A LETTER BY THE CHANCELLOR.

8. " FLANKING MEASURES": THESE INCLUDE THE ADVOCACY OF CONTINUED TIGHT MONETARY POLICY AND THE ANNOUNCEMENT OF AN EARLY FLOATATION OF THE SECOND TRANCHE OF THE DM 4 BILLION " STABILITY LOAN" ( SEE REFAIR). IN AN EFFORT TO INCREASE SUPPLY, " THE REMAINING LEEWAY FOR AUTONOMOUS TRADE POLICY MEASURES IS TO BE FULLY UTILIZED".

IMPORTS ARE TO BE FACILITATED, AMONG OTHER THINGS BY FURTHER LIBERALIZATION OF TRADE WITH THE EAST, HIGHER QUOTAS FOR TEXTILE IMPORTS, AND FURTHER REDUCTION OF QUANTITATIVE IMPORT BARRIERS, AS WELL AS BY MORE STRINGENT RULES FOR THE GRANTING OF FEDERAL EXPORT GUARANTEES. IN THE EEC, THE FEDREP WILL SEEK ACROSS- THE- BOARD TARIFF CUTS, IMPROVEMENT OF PREFERENCES FOR DEVELOPING COUNTRIES, AND AN EXAMINATION OF POSSIBILITIES FOR A REDUCTION OF SURPLUS PRODUCTION IN CERTAIN AGRICULTURAL AREAS. COMPETITION IS TO BE STIMULATED, PRIMARILY BY MORE RIGID ANTI- CARTEL RULES TO BE IMPLEMENTED BEFORE SUMMER. PREVIOUSLY CONTEMPLATED INCREASES IN POSTAL AND TELECOMMUNICATIONS FEES ARE TO BE POSTPONED.

HILLENBRAND

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